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Saudi Arabia

Grain and Feed Annual

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Report Highlights:

Saudi Arabia wheat production decreased by 42 percent from 1.7 million metric tons (MMT) in Marketing Year (MY) 2008 to one MMT in MY 2009. A further 30 percent decrease is forecasted for MY 2010. From October 2008 to January 2010, GSFMO issued six international wheat import tenders for 2.6 MMT by June 2010.

During the first six months of MY 2009 (July-December 2009), Saudi barley imports decreased by 4.5 percent from the same period last year (4,050,000 MT vs. 4,243,000 MT). Barley imports by the end of MY 2009 were almost 6.5 MMT due to continuing government .

Saudi rice imports in calendar year (CY) 2010 are forecasted to increase by 4 percent to about 1.1 MMT.

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Production:

Consumption:

Author Defined:

I. Overview of Saudi Arabia's Wheat Production

Saudi Arabia wheat production decreased by 42 percent from 1.7 million metric tons (MMT) in Marketing Year (MY) 2008 to one MMT in MY 2009. A further 30 percent decrease is forecasted for MY 2010. In 2009, the Saudi government implemented its 2008 decree which called for a 12.5 percent annual reduction in local wheat production with the goal of terminating the production by the spring of 2016. Until then, Saudi Arabia will augment the percentage reduction in domestic wheat production by importing a similar percentage from the international wheat market. The government, also, will maintain its guaranteed purchase price for wheat producers at \$266.67 per metric ton until 2016.

		Wh	eat PSD	Table						
Wheat Saudi Arabia	2 Mark		009 Begin:		2009 009/20: et Year I	Begin:	2010/ Market Ye	2010 2010/2011 Market Year Begin:		
	Jul 2008 USDA Official I Data			Jul 2009 USDA Official Data		New	Jul 2 USDA Official Data	010 Jan		
			Data			Data		Data		
Area Harvested	340		_	_				140		
Beginning Stocks	2,169	2,237	2,169	2,769	2,040	2,210		2,091		
Production	1,700	1,700	1,720	1,300	1,200	1,000		700		
MY Imports	1,400	385	1,021	1,600	1,115	1,639		2,000		
TY Imports	1,400	385	1,021	1,600	1,115	1,639)	2,000		
TY Imp. from U.S.	0	0	59	0	300	0		300		
Total Supply	5,269	4,322	4,910	5,669	4,355	4,849)	4,791		
MY Exports	0	0	0	0	0	0		0		
TY Exports	0	0	0	0	0	0)	0		
Feed and Residual	0	0	0	20	0	0)	0		
FSI Consumption	2,500	2,282	2,700	2,700	2,328	2,758	3	2,810		
Total Consumption	2,500	2,282	2,700	2,720	2,328	2,758	3	2,810		
Ending Stocks	2,769	2,040	2,210	2,949	2,027	2,091		1,981		
Total Distribution	5,269	4,322	4,910	5,669	4,355	4,849		4,791		
Yield	5.	5.	5.	5.	5.	5.		5.		

The 2008 Saudi government decision to terminate domestic wheat production by 2016 was a drastic change in the country's longstanding policy of self-sufficiency in wheat production, which Saudi Arabia has pursued since the early 1980s. At that time, the country banned imports of bulk wheat and flour (with the exception of small retail packs of flour and some specialized flour for baking) when it achieved self-sufficiency in 1985. According to the Ministry of Agriculture (MOA) officials the main reason for change in the domestic wheat production policy was concerns over the depletion of fossil water since the crop is grown on 100 percent central pivot irrigation. Wheat production places large demands on underground non-renewable aquifer water, resulting in an increasing imbalance between water recharge and water discharge. As a result, the underground water level in the aquifer has fallen in grain-and forage-producing regions.

Production Year	Saudi Wheat Production in Metric Ton (MT)
2009	1,000,000
2008	1,720,000
2007	2,340,000

Source: Saudi Grain Silos and Flour Mills Organization (GSFMO)

1. Wheat Imports

On January 13, 2010, the Saudi Grain Silos and Flour Mills Organization (GSFMO), a Saudi government agency responsibly for purchasing wheat, milling and domestically marketing wheat flour, issued an international tender to purchase 495,000 MT of wheat. The January 13th tender, which was the sixth tender issued by the GSFMO since October 2008, contained two new specifications:

- 1. Seller's option: GSFMO allowed potential supplies to source the required wheat from any country or countries within specified quality specifications.
- 2. Reduced protein Content: GSFMO included in the January 13th tender a request to import 110,000 metric tons of wheat with 12.5 protein percentage. The GSFMO told ATO Riyadh that it wanted to test domestic bakeries and consumers reaction to the wheat containing 12.5 protein percent. If no major quality complaint is received, the organization may eventually move from the 14 percent protein requirement to 12.5 protein option to save cost on wheat imports. The GSFMO believes that the Seller's option and the 12.5 percent protein requirements will increase wheat supply and reduce prices since international grain exporters will have opportunities to export wheat to Saudi Arabia from several approved potential supplying countries.

In October-December 2008, GSFMO imported some wheat from Russia and Ukraine in order to evaluate its baking qualities. However, domestic bakeries were not happy with the wheat qualities from the two countries because of low protein content and failure to meet other import specifications. As a result, GSFMO eliminated Russia and Ukraine from prospective wheat suppliers list for the foreseeable future. Currently, GSFMO allows international wheat exporters to supply wheat to Saudi Arabia from the U.S., Canada, EU, Australia, Argentina, and perhaps from Latvia and Lithuania.

The four wheat import tenders issued since May 2009, will allow Saudi Arabia to import more than 1.6 MMT of wheat by the end of MY 2009 (July 2009-June 2010), an increase of 61 percent over the same period last year. in MY 2010 (July 2010-June 2010) Saudi wheat imports are forecasted to reach 2 MMT due to anticipated further decline in domestic wheat production.

2. Tender Results

From October 2008 to January 2010, GSFMO issued six international wheat import tenders for 2.6 MMT by June 2010. The following table summarizes results of the six wheat import tenders issued by the GSFMO.

Tender Number	Date of Wheat Arrival at Saudi Ports		_	Supplying Country
1	October-Dec, 2008	305,593	·	U.S.A., Russia, Germany and Ukraine
2	Feb-May 2009	404,250	\$245.50	Canada
3	May-Aug 2009	519,750	•	Canada and Germany
4	Sep-Nov 2009	440,000	'	Canada and Germany
5	Dec 2009-Feb 2010	550,000	\$253.80	Canada
6	Mar-June 2010	330,000 (14% protein)		Seller's option per GSFMO
		110,000 (12.5% protein)	\$240.00	specifications*

Source: GSFMO

Saudi Wheat Imports from October 2008 to June 2010 by Supplying Countries

Country of Origin	Quantity of Wheat Imported in MT
Canada	1,200,000
Germany	472,500
EU	440,000
Russia	111,470
Ukraine	66273
U.S.	59300
Total Wheat Imports	2,659,593

Source: GSFMO

3. Ending Stock

Saudi Arabia has a policy of maintaining wheat quantity of at least six months' domestic consumption as a reserve stock at any given time. The current stock level at GSFMO silos is estimated at more than 2 MMT of wheat.

4. Wheat Import Procedures

The GSFMO sends tenders by fax directly to major wheat exporters who should respond by fax within five days. The organization does not deal with local grain suppliers or international or local wheat brokers. There are several major U.S. wheat exporters on the GSFMO potential suppliers list that receive wheat tenders.

^{*}GSFMO anticipates the wheat to come from EU countries.

5. Wheat Flour Wholesale Prices

The GSFMO is responsible for milling wheat and marketing wheat flour domestically. Listed below are the current wholesale prices of five types of wheat flours produced the GSFMO.

Wheat Flour Type	Extraction Ratio	Price Per 45 KG in USD
Patent Flour	70-75 Percent	\$7.47
Flour Powder	75-80 Percent	\$5.87
Plain Flour	85 Percent	\$5.33
Improved Whole Wheat	90 Percent	\$8.00
Whole Wheat	95 Percent	\$8.00

6. Wheat Milling Capacity

The GSFMO has nine wheat milling complexes located in major regions of the Kingdom with a total daily wheat milling capacity of 10,980 MT. The largest wheat mill is located in Riyadh and has a daily milling capacity of 2,550 MT of wheat per day.

7. Wheat Storage Capacity

The GSFMO owns and operates 12 silo complexes in major cites around the country with a total combined storage capacity of more than 2.5 MMT. The organization has a plan to increase the wheat storage capacity to 3.5 MMT in the next few years. The following wheat milling and storage capacity data were provided by the GSFMO.

Region	Daily Wheat Milling Capacity in MT	Wheat Storage Capacity in MT
Riyadh	2,550	535,000
Makkah	2,430	120,000
Eastern	1,050	80,000
Qassim	900	485,000
Aseer	1,650	40,000
Tabuk	600	100,000
Madinah	600	60,000
Hail	600	300,000
Jouf	600	100,000
Kharj	-	200,000
Wadi	-	500,000
Total	10,980	2,520,000

II. Overview of Saudi Arabia's Barley Market

The Saudi government terminated its domestic barley production subsidy program in 2003, bringing an end to a two decade long domestic commercial barley production. Currently, less than 30,000 metric tons of barley is produced locally, mostly for human consumption.

	Barley PSD Table											
	2	2008 2008/20	09	2	2009 2009/201	0		2010 2010/2011				
Barley Saudi Arabia		et Year Jul 200	Begin:		ket Year B Jul 2009		Market Year Begin: Jul 2010					
	USDA Offic Data	cial	New Post	USDA Offi	icial Data	New Post	USDA Offi Data	cial	Jan			
			Data			Data			Data			
Area Harvested	0	4	4	0	4	4			4			
Beginning Stocks	2,428	2,400	2,428	2,298	2,458	2,477			2,594			
Production	0	25	25	0	25	25			25			
MY Imports	7,600	7,413	7,481	8,000	7,561	7,600			7,650			
TY Imports	7,700	7,600	7,481	7,500	7,800	7,600			0			
TY Imp. from U.S.	0	0	0	0	0	0			0			
Total Supply	10,028	9,838	9,909	10,298	10,044	10,102			10,269			
MY Exports	0	0	0	0	0	0			0			
TY Exports	0	0	0	0	0	0			0			
Feed and Residual	7,700	7,352	7,432	7,900	7,513	7,483			7,683			
FSI Consumption	30	28	25	30	21	25			25			
Total Consumption	7,730	7,380	7,432	7,930	7,534	7,483			7,683			
Ending Stocks	2,298	2,458	2,477	2,368	2,510	2,594			2,561			
Total Distribution	10,028	9,838	9,909	10,298	10,044	10,102			10,269			
Yield	0.	6.	0.	0.	6.	0.			0.			

1. Barley Imports

During the first six months of MY 2009 (July-December 2009), Saudi barley imports decreased by 4.5 percent from the same period last year (4,050,000 MT vs. 4,243,000 MT). Barley imports by the end of MY 2009 were almost 6.5 MMT due to continuing government subsidies, high demand for barley because of poor pasture conditions and favorable prices. The outlook for MY 2010 calls for continued strong demand for barley imports based on the expectation of continued government subsidies and large local demand.

In calendar year 2009, Saudi Arabia imported about 7.3 MMT of feed barley, a decrease of 11 percent compared to calendar 2008 imports. Ukraine supplied 54 percent of the total barley imports, followed by Australia with 19 percent. The Saudi government continues to subsidize imported feed barley and regularly adjusts subsidy rates on imported barley and other animal feed imports based on prevailing world prices. In January 2009, the Saudi government decreased subsidy on imported feed barley from \$320 per metric ton to \$53.33 per metric ton as a result of decline in the world barley prices. However, local barley importers indicate that they have signed agreements to import feed barley at prices that range between \$180 and \$200 per metric ton for arrival at Saudi ports in March and April 2009.

To reduce the country's dependence on feed barley, the government announced in early 2008 a decision to include several energy and protein rich animal feed ingredients in its long standing imported animal feed subsidy program. The list has been revised three times since it was issued. According to the January 2009 government decree, selected imported animal feed receives rebates which range between \$26.13 and \$101.06 per metric ton, depending on the type of the feed. Currently, import subsides are paid directly to importers of barley, yellow corn, soybean meal, sorghum, oat, wheat bran, palm kernel meal, cotton seed meal, canola meal, alfalfa, alfalfa hay, Rhodes grass, Sudan grass, soybean hulls, sunflower hulls, and rice hulls. The Saudi government believes that including the additional feedstuffs in the subsidy program will provide local livestock producers with more nutritious feeds. It also anticipates that this will lead to a drastic reduction in the demand for barley imports in the long run.

2. Trade Matrix

	Januar	y-Decemb	er 2009	Saudi	Arabia's I	Barley Im	ports				
000 metric tons											
Month	Ukraine	Australia	Russia	Turkey	Romania	Germany	Other Countries*	Total			
January	156	399	88	0	0	58	0	701			
February	174	121		0			32	327			
March	99	248				_	36				
April	131	252	83	0	0	0	0	466			
May	201	111	296	0	0	60	53	721			
June	386	69	146	0	0	0	0	601			
July	455	57	123	0	50	0	0	685			
August	863	40	67	0	115	0	48	1133			
September	526	0	109	0	0	0	48	683			
October	556	0	46	46	0	0	99	747			
November	212	0	127	0	0	0	14	353			
December	177	96	50	126	0	0	0	449			
Total	3,936	1,393	1,174	172	165	118	330	7,288			
Market share	54%	19%	16%	2%	2%	2%	5%	100%			

^{*}Other Countries: Canada 99,000 MT, Estonia: 96,000 MT, Argentina: 82,000 MT and France: 53,000 MT

	January-December 2008 Saudi Barley Imports												
	Qty-1000 MT												
Month	Ukraine	Australia	Canada	Germany	France	Russia	Romania	Lithuania	Other	Total			
Jan	60	77	292	70	161	0	0	0	109	769			
Feb	0	231	116	143	36	0	0	0	57	583			
Mar	55	479	121	0	76	0	0	0	29	760			
Apr	78	273	65	0	99	0	0	0	0	515			
May	56	355	101	0	0	0	0	0	74	586			
June	334	101	178	0	0	0	0	0	125	738			
July	407	20	113	38	0	40	80	0	118	816			

Aug	151	96	0	0	0	30	94	. 0	23	394
Sep	253	0	0	119	0	134	28	0	64	598
Oct	474	43	0	90	155	0	33	0	72	867
Nov	312	61	0	142	0	100	118	141	82	956
Dec	269	22	0	59	0	222	0	40	0	612
Total	2,449	1,758	986	661	527	526	353	181	753	8,194

Source: Trade Contacts

	MY 2008 and My 2007 Saudi B	arley Imports
Month	MY 2008 (July 2008-June 2009)	MY 2007 (July 2007-June 2008)
	Qty-1000 MT	Qty-1000 MT
July	816	225
Aug	394	438
Sep	598	237
Oct	867	724
Nov	956	1,012
Dec	612	681
Jan	701	769
Feb	327	583
Mar	422	760
Apr	466	515
May	721	586
June	601	738
Total	7,481	7,268

Source: Trade Contacts

3. Barley Consumption

Traditionally, white barley has been the preferred animal feed for local Bedouins and approximately 80 percent of imported barley is used in feeding their sheep, camels, and goats, especially when pasture conditions are poor and barley prices are lower than alternative feed.

It is important to note that the quantity of barley used as feed depends to a large extent on its price competitiveness compared to other feed alternatives. Currently, 50 kg of barley is sold between \$4.53 (in Jeddah) and \$6.13 (in northern Saudi cities) depending on the distance between barley bagging terminals and final destinations of the bagged barley.

At the beginning of 2008, when the barley retail price reached \$13.13 per 50 kg, equal to the price for local feed concentrate of the same weight, a large number of livestock farmers switched to alfalfa and feed concentrates while lobbying the government to increase the import subsidy. The reduced demand for barley increased stock levels at importers' warehouses and forced them to significantly reduce prices to help move barley from warehouses to the market.

Bedouins feed raw barley to their livestock and in the process a significant percentage is wasted. According to the Ministry of Agriculture (MOA), the new feed subsidy policy is intended to encourage expansion of existing feed processors and establishment of new facilities to help provide local livestock with adequate quantities of more nutritional feed formulas.

The MOA points out that livestock use of more feed concentrates, mixed with barley, is necessary to reduce barley wastage. MOA indicates that when an animal consumes large quantities of barley, about 30 percent is eliminated without being digested, thereby providing no benefit in terms of weight gain or nutrition. The recent introduction of seven

additional feedstuffs to the existing feed subsidy program is expected to bring about new and better-feed formulas that will sharply reduce feed wastage, increase weight gain and reduce production costs.

Although local livestock farmers prefer barley as a feed alternative, future barley consumption and imports will depend on the government import subsidy to enable importers to supply barley at reasonable prices compared to other feed alternatives such as forage and feed concentrates. In recent years, the government barley import subsidy program has made barley the most price competitive feed alternative. The program resulted in a drastic reduction in the demand for locally grown alfalfa due to a significant price difference between the two feeds. As a result, forage production has become an unprofitable venture for local farmers. The government's policy is to eliminate all crops that consume a large amount of underground water. Elimination of alfalfa production is the goal of the recently introduced alfalfa import subsidy. Currently, most alfalfa is grown and used by dairy farmers.

III. Overview of Saudi Arabia's Rice Market

No rice is produced in the Kingdom. Saudi rice imports in calendar year (CY) 2010 are forecasted to increase by 4 percent to about 1.1 MMT. Rice and wheat are basic staple foods in Saudi Arabia and consumption of both is expected to grow significantly in the next few years due to an annual population growth rate of 3 percent and the increasing number of Ummra visitors and pilgrims coming to Mecca. More than five million pilgrims come to Mecca each year to perform Ummra and Hajj rituals. Also, the Saudi government procures rice locally for food donations to nearby countries affected by natural disasters.

			Rice PSE) Table					
		2008			2009			2010	
		2008/2009	4	2009/201	0	2	010/2011		
Rice, Milled Saudi	Market Y	ear Begin:	Jan 2008	Market	Year Be 2009	gin: Jan	Market Year Begin: Jan 2010		Jan 2010
Arabia	USDA Off	icial Data	New Post	USDA Official Data		New Post	USDA Official Data		Jan
			Data			Data			Data
Area Harvested	0	0	0	0	0	0			0
Beginning Stocks	278	277	278	411	411	356			342
Milled Production	0	0	0	0	0	0			0
Rough Production	0	0	0	0	0	0			0
Milling Rate (.9999)	0	0	0	0	0	0			0
MY Imports	1,360	1,367	1,166	1,370	1,370	1,049			1,091
TY Imports	1,370	0	0	1,400	0	0			0
TY Imp. from U.S.	0	0	131	0	0	115			130
Total Supply	1,638	1,644	1,444	1,781	1,781	1,405			1,433
MY Exports	20	20	20	50	50	20			20
TY Exports	50	20	20	50	50	20			20
Consumption and Residual	1,207	1,213	1,068	1,299	1,299	1,043			1,060
Ending Stocks	411	411	356	432	432	342			353
Total Distribution	1,638	1,644	1,444	1,781	1,781	1,405			1,433

1. Rice Imports

With an estimated 55 percent market share in CY 2009, India has continued to dominate the Saudi rice market, followed by Thailand (16), Pakistan (14%), and the U.S. 11 percent. During the past years, India benefited most from the shift in Saudis and expatriates consumers' rice consumption preferences which have shifted from long grain white Basmati rice to long grain parboiled or sella or muzza Basmati rice. Saudis and expatriates rice consumers prefer parboiled rice over the traditional long grain white rice since it is easier to cook.

Except for Thailand, all major rice supplying countries rice exports to Saudi Arabia were reduced significantly in 2009. Indian rice exports to Saudi Arabia for the first seven months of CY 2009 declined by 19 percent to 428,958 MT compared to the same period last year. Thai benefited from the Indian decreased exports by increasing its rice exports to Saudi Arabia by the same percentage or 19 percent in the same year (174,184 MT vs. 135,286). Pakistani rice exports for January-June 2009 dropped by 45 percent to 87,549 MT compared to the same period in 2008. Similarly, U.S. rice exports decreased by 13 percent in 2009 compared to 2008.

Domestic rice importers anticipate that their purchases of U.S. rice could decrease significantly in CY 2010 if the up to \$200 price differences between Thai and U.S. long grain parboiled rice reported in February 2010 continues for the rest of the year. Saudi rice trade acknowledges the superior quality of U.S. rice compared to Thai long grain parboiled rice but realizes that a significant number of local consumers are unable to ascertain the difference between the two varieties. Sources allege that illicit traders often pass off Thai rice or Indian low quality rice as American rice by bagging in bags associated with U.S.-origin product. This practice has been going on for several years and has proven difficult to stop. The local availability of dozens of brands of Basmati and non-Basmati rice mainly from India and to some extent from Pakistan has greatly increased competition for U.S. branded rice products. At present, there are less than ten U.S. brands on the Saudi market.

Below are prices per metric ton for different rice variety imported from major supplying countries as of February 2010

Type of Rice	C&F Price in U.S. Dollar per MT Jeddah Port
Indian Sella Basmati	\$1350
Indian Sella Pusa	\$950
Pakistani Parboiled IRRI	\$630
Thailand Parboiled	\$680
U.S. Parboiled	\$800-850

2. Saudi Government Lifts Rice Import Subsidy

On November 24, 2009, the Saudi government removed the 266.67 per metric ton rice import subsidy program, which it established in December 2007 to alleviate the financial burden on consumers caused because of the sharply rice prices increase. The government indicated that it removed the rice subsidy scheme as foreign rice exporters took advantage of the import subsidy to keep import prices high. Saudi rice importers have reported that a number of major rice exporters exploited the Saudi government's rice import subsidy program to keep import prices high despite the significant decline in world rice prices that began in mid 2008 which prevented them to pass savings to domestic consumers.

3. Trade Matrix

CY 2009-2002 Rice Imports (Qty---000 metric tons---)

Country	CY2009	CY2008	CY 2007	CY 2006	CY 2005	CY 2004	CY 2003	CY 2002
India	580	653	632	687	715	754	820	600
Thailand	174	135	78	52	53	71	45	58
Pakistan	150	212	84	88	95	86	81	70
U.S.	115	131	127	81	98	94	102	92
Other	30	35	40	50	50	40	30	30
Total	1,049	1,166	961	958	1,011	1,045	1,078	850

Source: Official supplying countries data and ATO estimates